

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 14548
ORDER NO. R-13326**

**APPLICATION OF BLUE DOLPHIN
PRODUCTION LLC FOR AN UNORTHODOX
WELL LOCATION AND NON-STANDARD
OIL SPACING AND PRORATION UNIT, RIO
ARRIBA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 30, 2010, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 20th day of October, 2010, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

- (1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.
- (2) In this application, Blue Dolphin Production LLC ("Applicant") seeks approval of (a) a non-standard oil well location in the Mancos and Greenhorn formations for its proposed Theis Greenhorn Test Well No. 1 (the well), to be located 1643 feet from the North line and 1575 feet from the East line (Unit G) of Projected Section 27, Township 30 North, Range 1 East, NMPM, in Rio Arriba County, New Mexico, and (b) a non-standard 21-acre, more or less, oil spacing and proration unit for the said well in the Mancos and Greenhorn formations, consisting of that portion of the SW/4 NE/4 of Projected Section 27 lying east of the eastern boundary of the Jicarilla Apache Reservation (being approximately the E/2 of the said quarter-quarter section).
- (3) Applicant appeared at the hearing through counsel and presented testimony and exhibits to the effect that:

(a) Applicant proposes to drill the well at the above-described non-standard location in order to test the Mancos and Greenhorn formations. It expects the well to produce oil.

(b) This is a wildcat area, and spacing is governed by statewide rules which provide for 40-acre units, with wells to be located at least 330 feet from unit boundaries.

(c) Applicant selected the site for the well on the basis of proprietary seismic and proprietary geo-chem data, as well as topography within the proposed non-standard unit.

(d) The proposed non-standard unit is necessary because the western portion of the SW/4 SE/4 of Projected Section 27 is owned by the Jicarilla Apache Tribe, which has declined to lease this acreage. The only lands within the quarter-quarter section that will not be included in the proposed non-standard unit are those lands within the Jicarilla Apache Reservation.

(e) The proposed non-standard location is more than 330 feet from the eastern boundary of the Jicarilla Apache Reservation, but less than 330 feet from the eastern and northern boundaries of the SW/4 SE/4 of Projected Section 27. There are no oil or gas wells located on any of the offsetting units. Working interest and mineral ownership in the offsetting lands to the north, east and northeast is identical with ownership of the proposed unit.

(f) The Jicarilla Apache Tribe and all mineral owners in other adjoining tracts were duly notified of this application and of the hearing. Applicant's representatives have conferred with officials of the Jicarilla Apache Tribe who have specifically advised them that the Tribe does not oppose formation of the proposed non-standard unit.

(4) No other party appeared at the hearing or otherwise indicated opposition to the granting of this Application.

The Division concludes that:

(5) In view of the decision of the Jicarilla Apache Tribe not to lease its lands within the subject quarter-quarter section, approval of this non-standard unit is necessary to facilitate the drilling of the proposed well, thereby preventing waste.

(6) The exhibits offered in evidence indicate that any location within the proposed non-standard unit more than 330 feet from the boundary of the Jicarilla Apache Reservation would be non-standard to the east. While a location could have been selected that would be more than 330 feet from the northern unit boundary, in view of the identity of ownership, no one's correlative rights will be affected by location of the well less than 330 feet from the northern boundary of the unit.

(7) Accordingly, the proposed non-standard 21-acre, more or less, oil spacing and proration unit, and the proposed non-standard location for the well, should be approved.

IT IS THEREFORE ORDERED THAT:

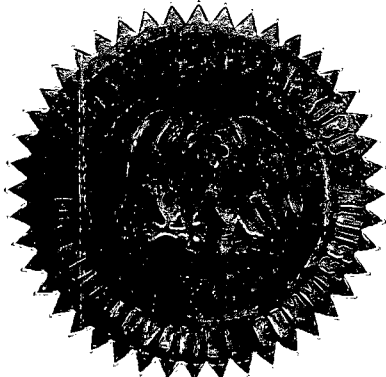
(1) Pursuant to the Application of Blue Dolphin Production LLC ("Applicant"), a non-standard 21-acre, more or less, wildcat oil spacing and proration unit is hereby established in the Mancos and Greenhorn formations, consisting of all of the SW/4 NE/4 of Projected Section 27, Township 30 North, Range 1 East, NMPM, in Rio Arriba County, New Mexico, lying east of the eastern boundary of the Jicarilla Apache Reservation.

(2) The unit described in Ordering Paragraph (1) shall be dedicated to Applicant's proposed Theis Greenhorn Test Well No. 1 (the well), to be located 1643 feet from the North line and 1575 feet from the East line (Unit G) of Projected Section 27.

(3) The unorthodox location of the well, as described in Ordering Paragraph (2), in the Mancos and Greenhorn formations, is hereby approved.

(4) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire", written over a horizontal line.

MARK E. FESMIRE, P.E.
Acting Director